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Donut Inn Owner Must Pay Ex-Franchisees

December 12, 1997 | EVELYN LARRUBIA and ANDREW BLANKSTEIN | TIMES STAFF WRITERS

VAN NUYS — A jury returned a $230,000 verdict against a San Fernando Valley doughnut company owner Thursday in a suit in which he was accused of defrauding a former franchisee by exaggerating profits and misrepresenting the rate of store failure and turnovers.

Arthur S. Pfefferman, founder and president of Woodland Hills-based Donut Inn, must also pay John and Carol Salvino $75,000 in punitive damages as part of a separate settlement reached by both parties.

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The Salvinos, who said they lost $300,000 on three Donut Inn shops in Burbank, Canyon Country and Pasadena, alleged that in his sales pitch, Pfefferman overstated the potential growth of Donut Inn franchises and concealed previous lawsuits against the company.

"I think verdicts like this show how franchisees are vulnerable to fraudulent conduct by franchisers," said Robert L. Esensten, attorney for the Salvinos. "But hopefully there is some message here to be learned by franchisees--that you must treat the franchisee truthfully and honestly."

Pfefferman's attorney, Gary Barr, said his client did not withhold any information required by law, or make any claims about the profitability of the stores.

Barr said the couple had asked for $13 million. Barr said the majority of the jury award is likely to be overturned because jurors found that releases signed by the Salvinos in 1990, after they sold their stores, were valid.

Those provisions should release Pfefferman from any responsibility for the couple's loss, Barr said.

Then, Superior Court Judge Jacqueline Weisberg can use that finding to dismiss the portion of the award based on misrepresentation, Barr said.

"We're very, very confident that that's what she's going to do," Barr said. "We feel that when the dust settles . . . the Salvinos will owe us money on attorney's fees," because Pfefferman prevailed on many of the questions before the jury.

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That claim was disputed by Esensten, who said that his clients were victorious on all but one question before the jury. Esensten said the jury based its damage assessment on the time that was not covered by the releases.

"Clearly the Salvinos were the prevailing party," Esensten said.

Whatever the amount the Salvinos are awarded, they will have to get it from bankruptcy court, Barr said.

Donut Inn filed for Chapter 11 protection in 1996.

The Salvino suit, filed five years ago, was one of a number filed by Donut Inn franchisees that accused the 50-year-old Pfefferman of selling a franchise, then systematically harassing owners into selling their businesses so he could resell them.

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Most of those claims are being litigated in the bankruptcy case, Barr said.

Barr said he "vigorously" denied that Pfefferman was churning franchises and said Donut Inn has won three of the claims in bankruptcy court.

Pfefferman started his career as an apprentice baker in the 1960s before launching a chain of at least 30 franchises spanning Southern California, Nevada and two foreign countries.

Pfefferman has received awards, including the 1985 Fernando Award for the Valley's volunteer of the year, for his civic and professional activities.

Pfefferman is president of Mayor Richard Riordan's Cultural Affairs Commission and has taught classes on franchising at Cal State Northridge.

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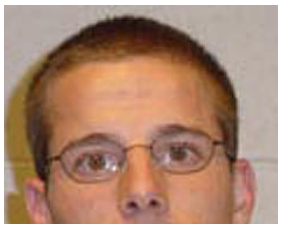

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